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ANNUAL REPORT

OF

The Belt Railway Company

of CHICAGO

FOR THE

YEAR ENDED DECEMBER 31, 1974

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THE BELT RAILWAY COMPANY OF CHICAGO

DIRECTORS

J. C. DAVIS, The Atchison, Topeka and Santa Fe Railway Co.	Chicago, Ill.
J. E. HAMER, Burlington Northern Inc.	Chicago, Ill.
J. T. COLLINSON, The Chesapeake and Ohio Railway Co.	Baltimore, Md.
H. S. VIERLING, Chicago & Eastern Illinois Railroad Co.	Chicago, Ill.
M. L. CASSELL, Chicago, Rock Island and Pacific Railroad Co.	Chicago, Ill.
G. W. MAXWELL, Erie Lackawanna Railway Co.	Cleveland, Ohio
J. H. BURDAKIN, Grand Trunk Western Railroad Co.	Detroit, Mich.
A. S. BOYD, Illinois Central Gulf Railroad Co.	Chicago, Ill.
R. E. BISHA, Louisville and Nashville Railroad Co.	Louisville, Ky.
S. T. BROWN, Louisville and Nashville Railroad Co.	Roanoke, Va.
R. F. DUNLAP, Norfolk and Western Railway Co.	Roanoke, Va.
K. E. SMITH, Penn Central Transportation Co.	Chicago, Ill.
T. R. KLINGEL, Soo Line Railroad Co.	Minneapolis, Minn.

EXECUTIVE COMMITTEE

R. E. BISHA, Chairman

J. C. DAVIS - R. F. DUNLAP - J. E. HAMER - H. S. VIERLING

OFFICERS

President and General Manager	R. E. DOWDY
Vice President and Assistant General Manager	D. R. TURNER
Vice President and Controller	R. G. RUBINO
Secretary and Treasurer	G. D. MORIARTY
General Counsel	R. F. KOPROSKE
Assistant Secretary and Assistant Treasurer	R. A. DUFOUR

GENERAL OFFICES

6900 SOUTH CENTRAL AVENUE, CHICAGO, ILLINOIS 60638

ANNUAL MEETING - SECOND TUESDAY IN MAY

Chicago, Illinois
May 13, 1975

TO THE STOCKHOLDERS OF
THE BELT RAILWAY COMPANY OF CHICAGO

The Annual Report of the company for the year 1974 is hereby submitted.

The operating revenues for the year increased 23% over the preceding year. Major contributing factors for this increase were a 13% increase in cars handled by Belt power and a substantial increase in intermediate switching allowance obtained through the Chicago Switching Committee.

These increased volumes and higher rates allowed Separate Operations to move into a profitable position for the first time in several years. Belt Separate Operations returned to the Owners \$1,202,320 as a reduction of working expenses. This profit position was made up of operating gains and discounts on bonds purchased during the year.

There was a sharp reduction of business in the last quarter of 1974, which has continued into the year 1975. This reduction is of a national nature and not a result of changes in local operations. The overall results for the year 1975 will largely depend upon an improvement in the economy.

Of the three additional buildings in the Bedford Industrial Park Venture started in 1973, two were completed and leased during 1974 and bid proposals are out on the remaining vacant building. Due to the unstable economy, no further building development was started in 1974.

During the year D. G. Wooden, K. T. Reed, J. R. Neikirk and J. M. Moonshower resigned from the Board of Directors. Their wise counsel and dedication is gratefully acknowledged.

The Board recognizes the cooperation and contributions of the employees during the year.

By order of the Board of Directors.

R. E. DOWDY
President and General Manager

REVIEW OF OPERATIONS

REVENUES:

Total operating revenues for the year were \$18,702,392, an increase of \$3,539,470 or 23.34%. Intermediate and local switch cars handled in Belt Separate Operation comprise the principal source of revenues. Intermediate switching revenue increased \$3,231,401 or 74.58%, and local switching revenues increased \$413,622 or 4.61%.

Demurrage charges decreased \$160,600, principally due to the decrease in cars subject to demurrage and storage charges.

Car movements during 1974 on the Belt Railway increased over 1973 in spite of the major business decline in the last quarter of the year. This improvement was achieved by operational changes inaugurated by Belt Railway and Owner Lines whereby centralized interchange of cars through Belt switching-terminal facilities resulted in expedited traffic.

Cars handled totaled 1,863,068 in 1974 compared to 1,823,955 in 1973, an increase of 39,113 or 2.14%. Intermediate cars handled increased 44,152 or 15.84%; local loaded cars decreased 21,579 or 13.28%. Cars handled by Owner Lines in direct movements over Belt trackage decreased 71,924 or 7.42%; and cars interchanged directly between Owner roads using Belt Railway terminal facilities increased 110,663 or 43.05%.

Fifteen industries were located during the year and nineteen were vacated. This compared with thirteen located and fifteen vacated in 1973.

JOINT FACILITY RENT INCOME:

The decrease of \$1,744,985 was principally due to the profitable return from Belt's terminal-switching operations of \$1,202,320 for 1974, as against a loss of \$755,652 in 1973; offset by increases covering railroad retirement and general property taxes billable to proprietary roads.

OPERATING EXPENSES:

Total expenses in 1974 were \$19,505,070, an increase of \$2,272,353 or 13% compared to 1973. Payroll costs due to higher wage rates granted under industry-wide labor agreements increased \$687,202. Cost of fuel and other materials rose substantially following the inflationary trends throughout the year. The operating ratio of Belt Separate Operation decreased to 77.43 compared with 85.33 in 1973.

Maintenance of Way expenses totaled \$3,015,470 an increase of \$263,439. Higher wage costs of \$99,907 and an increase of \$304,193 for programmed track improvements was offset by controlled maintenance requirements throughout the system. The operating ratio to Belt Separate Operation was 9.86 compared to 10.61 in 1973.

Maintenance of Equipment expenses totaled \$2,661,948, a \$483,031 increase over 1973. Principal increases were repairs to diesel locomotives and freight train cars, \$448,150. The operating ratio to Belt Separate Operation was 11.75 compared to 12.02 in 1973.

Transportation expenses totaled \$12,255,621, an increase of \$1,503,986 compared to 1973. The overall increase in costs was due principally to increased volume of cars moving over the Belt Railway. Principal increase items were: Higher wage costs, \$458,631; locomotive fuel, \$398,066; yard supplies, \$192,630; servicing yard locomotives, \$104,635; and personal injury settlements, \$114,707. The operating ratio to Belt Separate Operation was 49.82 compared to 55.97 in 1973.

General expenses totaled \$1,558,147, an increase of \$16,393. The operating ratio to Belt Separate Operation was 5.93 compared with 6.68 for 1973.

Total operating expenses include amounts chargeable to others as their proportion of costs incurred by the Belt Railway Company in maintaining and operating jointly used tracks and facilities. Net operating expenses charged to Belt Railway Separate Operation are reflected on pages 6 and 16 through 19.

OTHER EXPENSES:

Railway tax accruals increased \$678,282. Of this amount, \$574,935 was principally due to increase in railroad retirement taxes. General property taxes increased \$63,153 but were offset by reduction in accruals for unemployment insurance of \$9,922.

Hire of freight cars increased \$387,507. This is directly attributable to increased car hire rates coupled with increased volume of cars handled.

RAIL TO WATER ACTIVITY:

Rail to Water transfer operations started on March 23rd and ended December 6th. In 1973, the operations began on March 19th and closed on December 22nd. Coal tonnage handled through the facility during 1974 totaled 4,030,966 tons compared to 5,353,661 tons in 1973, a decrease of 1,322,695 tons or 25%. Other commodities handled through this dock facility, principally coke, clay and feed, totaled 293,725 tons in 1974 compared with 321,310 tons in 1973, a decrease of 27,585 tons or 9%. Total tonnage decreased 1,350,580 tons or 24% compared to 1973. While total tonnage handled during 1974 was disappointing, in view of the continuing energy crisis, a greater volume is expected to move through this facility during the coming year.

PROPERTY IMPROVEMENTS:

Rail replacements in 1974 consisted of 1,203 tons of new and 1,405 tons of secondhand rail. There were 9,772 new cross ties installed and 184,381 feet B.M. of switch ties. An in-track welding program was started during the year and 5-1/2 miles of main track was welded by this process. Other changes in road and equipment are reflected on pages 14 and 15 of this report.

STATEMENT OF INCOME

Year ended December 31	1974	1973 Unaudited	Increase or (Decrease)
RAILWAY OPERATING REVENUES:			
Intermediate switching	\$ 7,564,423	\$ 4,333,022	\$ 3,231,401
Local switching	9,384,690	8,971,068	413,622
Demurrage	1,651,909	1,812,509	(160,600)
Rents of buildings and other property	300	300	-
Miscellaneous	101,070	46,023	55,047
Total railway operating revenues	18,702,392	15,162,922	3,539,470
RAILWAY OPERATING EXPENSES:			
Maintenance of way and structures	1,844,410	1,608,239	236,171
Maintenance of equipment	2,196,579	1,822,321	374,258
Traffic	13,826	8,159	5,667
Transportation-Rail line	9,317,387	8,486,957	830,430
General	1,109,278	1,013,408	95,870
Total railway operating expenses	14,481,480	12,939,084	1,542,396
Net revenue from railway operations	4,220,912	2,223,838	1,997,074
RAILWAY TAX ACCRUALS:			
General property	681,165	618,012	63,153
Federal Income (Note 3)	36,565	7,214	29,351
State Income	19,217	3,300	15,917
Retirement	1,913,271	1,338,336	574,935
Unemployment	173,736	183,658	(9,922)
Other	12,735	7,887	4,848
Total railway tax accruals	2,836,689	2,158,407	678,282
Railway operating income	1,384,223	65,431	1,318,792
RENT INCOME:			
Rent from locomotives	68,335	138,885	(70,550)
Rent from work equipment	409	1,963	(1,554)
Joint facility rent income	347,025	2,092,010	(1,744,985)
Total rent income	415,769	2,232,858	(1,817,089)
RENTS PAYABLE:			
Hire of freight cars-Debit balance	1,359,027	971,520	387,507
Rent for locomotives	188,640	188,154	486
Rent for work equipment	-	1,305	(1,305)
Joint facility rents	115,158	85,777	29,381
Total rents payable	1,662,825	1,246,756	416,069
Net rents	(1,247,056)	986,102	(2,233,158)
Net railway operating income	\$ 137,167	\$ 1,051,533	\$ (914,366)

See notes to financial statements.

STATEMENT OF INCOME — concluded

Year ended December 31	1974	1973 Unaudited	Increase or (Decrease)
OTHER INCOME:			
Income from lease of road and equipment	\$ 33,525	\$ 40,091	\$ (6,566)
Miscellaneous rent income	279,140	284,727	(5,587)
Income from non-operating property . .	49,830	57,941	(8,111)
Separately operated properties-profit . .	71,466	-	71,466
Interest income	174,294	97,283	77,011
Income from sinking and other reserve funds	162,039	156,857	5,182
Miscellaneous income (property sales) . .	403,788	73,331	330,457
Company bonds reacquired-profit	836,422	178,814	657,608
Total other income	2,010,504	889,044	1,121,460
Total income	2,147,671	1,940,577	207,094
MISCELLANEOUS DEDUCTIONS FROM INCOME:			
Miscellaneous rents	1,168	1,957	(789)
Miscellaneous tax accruals	64,170	82,688	(18,518)
Separately operated properties-loss . . .	-	33,956	(33,956)
Miscellaneous income charges	8,969	53,638	(44,669)
Total miscellaneous deductions	74,307	172,239	(97,932)
Income available for fixed charges . . .	2,073,364	1,768,338	305,026
FIXED CHARGES:			
Rent for leased roads and equipment . . .	2,303	18,974	(16,671)
Interest on funded debt	1,652,282	1,723,140	(70,858)
Amortization of discount on funded debt .	4,971	4,971	-
Total fixed charges	1,659,556	1,747,085	(87,529)
Income after fixed charges	413,808	21,253	392,555
Net income (Note 1)	\$ 413,808	\$ 21,253	\$ 392,555
Net income per share	<u>\$ 13.26</u>	<u>\$.68</u>	<u>\$ 12.58</u>

STATEMENT OF RETAINED INCOME

	1974	1973 Unaudited
Balance at beginning of year	\$2,175,895	\$2,154,642
Net income (Note 1)	413,808	21,253
Balance at end of year	\$2,589,703	\$2,175,895

See notes to financial statements.

BALANCE SHEET

Assets	December 31, 1974	December 31, 1973 Unaudited	Increase or (Decrease)
CURRENT ASSETS:			
Cash	\$ 6,397	\$ 17,744	\$ (11,347)
Temporary cash investments	2,261,868	2,447,306	(185,438)
Special deposits	4,067	1,616	2,451
Traffic and car-service balances-Dr.	596,843	438,486	158,357
Net balance receivable from agents and conductors	353,526	225,620	127,906
Miscellaneous accounts receivable (Note 2)	2,112,252	1,493,049	619,203
Interest and dividends receivable	21,898	-	21,898
Accrued accounts receivable	984,698	734,553	250,145
Working fund advances	2,040	2,040	-
Prepayments	201,461	135,900	65,561
Material and supplies (Note 1)	910,228	749,890	160,338
Total current assets	7,455,278	6,246,204	1,209,074
SPECIAL FUNDS:			
Sinking funds	4,586	20,188	(15,602)
Capital and other reserve funds	1,595,666	2,305,191	(709,525)
Insurance and other funds	15,000	14,540	460
Total special funds	1,615,252	2,339,919	(724,667)
INVESTMENTS:			
Other investments (Note 4)	1	1	-
PROPERTIES (Note 1):			
Road	30,226,589	30,266,632	(40,043)
Equipment	5,644,474	5,972,638	(328,164)
Improvements on leased property	14,707	14,707	-
Total transportation property	35,885,770	36,253,977	(368,207)
Accrued depreciation - Road and equipment	(8,178,219)	(8,156,480)	(21,739)
Total transportation property - Net	27,707,551	28,097,497	(389,946)
Miscellaneous physical property	6,145,325	6,424,091	(278,766)
Total properties - Net	33,852,876	34,521,588	(668,712)
OTHER ASSETS AND DEFERRED CHARGES:			
Other assets (Note 2)	892,935	696,181	196,754
Unamortized discount on long-term debt	63,371	68,342	(4,971)
Other deferred charges	151,982	232,978	(80,996)
Total other assets and deferred charges	1,108,288	997,501	110,787
Total assets	\$44,031,695	\$44,105,213	\$ (73,518)

See notes to financial statements.

BALANCE SHEET

Liabilities and Shareholders' Equity	December 31, 1974	December 31, 1973 Unaudited	Increase or (Decrease)
CURRENT LIABILITIES:			
Audited accounts and wages payable	\$ 961,925	\$ 796,086	\$ 165,839
Miscellaneous accounts payable	71,655	112,780	(41,125)
Interest matured unpaid	4,067	1,617	2,450
Unmatured interest accrued	441,935	489,590	(47,655)
Accrued accounts payable	243,369	70,970	172,399
Federal income taxes accrued	8,268	13,600	(5,332)
Other taxes accrued	1,004,639	947,897	56,742
Other current liabilities	98,020	28,598	69,422
Total current liabilities	2,833,878	2,461,138	372,740
LONG-TERM DEBT DUE WITHIN ONE YEAR:			
First mortgage bonds-Series A	201,000	-	201,000
Equipment obligations	82,500	82,500	-
Total debt due within one year	283,500	82,500	201,000
LONG-TERM DEBT (Note 7):			
First Mortgage 4-5/8% Sinking Fund Bonds, Series A, due August 15, 1987	26,065,000	28,138,000	(2,073,000)
Equipment obligations	106,250	180,625	(74,375)
Amounts payable to affiliated companies	8,050,864	6,860,775	1,190,089
Total long-term debt	34,222,114	35,179,400	(957,286)
RESERVES:			
Casualty and other reserves	30,523	76,514	(45,991)
OTHER LIABILITIES AND DEFERRED CREDITS:			
Other liabilities	98,814	98,814	-
Other deferred credits (Note 2)	623,163	680,952	(57,789)
Total other liabilities and deferred credits	721,977	779,766	(57,789)
SHAREHOLDERS' EQUITY:			
Capital stock, common, \$100 par value, authorized 50,000 shares, issued and outstanding 31,200 shares (Note 8)	3,120,000	3,120,000	-
Paid-in surplus	230,000	230,000	-
Retained income	2,589,703	2,175,895	413,808
Total shareholders' equity	5,939,703	5,525,895	413,808
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$44,031,695	\$44,105,213	\$ (73,518)

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1974	1973 Unaudited
Source of Funds		
Net income (Note 1)	\$ 413,808	\$ 21,253
Depreciation	430,668	445,784
Transportation property retired (non-depreciable)	213,206	81,180
Casualty and other reserves	(45,991)	76,514
Funds provided by operations	1,011,691	624,731
Salvage from property retired (depreciable)	84,219	68,660
Miscellaneous physical property sold	278,766	277,717
Decrease in capital and other special funds	724,667	511,211
Advances from affiliated companies	1,190,089	745,000
Increase in other liabilities and deferred credits	-	651,852
TOTAL FUNDS PROVIDED	\$3,289,432	\$2,879,171
Application of Funds		
Additions to transportation properties	\$ 338,147	\$ 409,279
First Mortgage Bonds acquired	2,073,000	1,635,000
Equipment obligations retired	74,375	82,500
Increase in other assets and deferred charges	110,787	296,244
Decrease in other liabilities and deferred credits	57,789	-
Increase in working capital	635,334	456,148
TOTAL FUNDS APPLIED	\$3,289,432	\$2,879,171
Increase (Decrease) in Working Capital (Including Long-Term Debt Due Within One Year):		
Current Assets:		
Cash and temporary cash investments	\$ (194,334)	\$ 813,383
Receivables and accruals	1,177,509	(480,802)
Prepayments	65,561	12,077
Material and supplies	160,338	68,035
TOTAL	1,209,074	412,693
Current Liabilities:		
Payables and accruals	251,908	10,467
Federal income taxes accrued	(5,332)	50,400
Other taxes accrued	56,742	(34,836)
Long-term debt due within one year	201,000	-
Other	69,422	17,424
TOTAL	573,740	43,455
Increase in Working Capital	\$ 635,334	\$ 456,148

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Statement Presentation

Accounts of the Company are maintained in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission which substantially conform with generally accepted accounting principles.

The principal business of the Company is providing railroad terminal and switching facilities and services to domestic railroad corporations and to the shippers of such railroad corporations. A substantial part of the services rendered by the Company is in behalf of its shareholder railroad corporations which, under an operating agreement with the Company ("Operating Agreement"), have operating rights for the movement of their trains by the Company.

The Company's terminal operations are generally classified either as owner lines operations or Company railway operations. The total expenses allocated to owner lines operations are billed to the shareholder railroad corporations on an actual cost basis. A summary of such operations for 1974 and 1973 follows:

	1974	1973 (Unaudited)
Railway operating expenses	\$4,946,707	\$4,203,170
Railway tax accruals	757,550	561,573
Interest and other fixed charges	887,722	761,101
Other	(117,594)	(81,758)
Total billed to shareholder railroad corporations	<u>\$6,476,385</u>	<u>\$5,444,086</u>

The terminal railroad facilities and related services for Company railway operations resulted in net revenues of \$1,202,320 for 1974 and net losses of \$755,652 in 1973; as prescribed by Section 281 of the Internal Revenue Code and the Operating Agreement, these results are incorporated in the Company's statement of account with its shareholder railroad corporations. Nonrelated terminal income and expenses of the Company are not included in the statement of account with its shareholder railroad corporations.

Properties, Depreciation, Maintenance and Repairs

Properties are stated substantially at cost. Replacement accounting is used principally for track accounts. Under this method, betterments and additions are capitalized and are not depreciated. Replacements in kind and retirements are charged to expense.

Additions, renewals and betterments of all other classes of property are capitalized. Expenditures for maintenance and repairs are charged to expense. When equipment or depreciable road property is sold or retired, the cost less salvage value is charged to accrued depreciation.

Depreciation is generally provided on the straight-line method. The average annual depreciation rates are approximately 1.50% for depreciable road properties and 4.30% for rolling stock.

Investment Tax Credit

The Company uses the "flow-through" method of accounting for investment tax credits.

Material and Supplies

Material and supplies, consisting primarily of fuel oil and replacement or repair parts for equipment and road property, are valued at average cost.

2. RECEIVABLES

Included in other assets are receivables of approximately \$417,000 due from two of the shareholder railroad corporations, Penn Central Transportation Company and Erie Lackawanna Railway Company. Such receivables arose from transactions occurring prior to the dates, June 21, 1970 and June 26, 1972, that the Penn Central Transportation Company and the Erie Lackawanna Railway Company, respectively, entered into reorganization proceedings under Section 77 of the Federal Bankruptcy Act. The Company has filed claims for payment with the respective reorganization courts. Included in miscellaneous accounts receivable are receivables of approximately \$138,000 due from the shareholder railroad corporation, Chicago, Rock Island and Pacific Railroad Company, which on March 17, 1975 filed for reorganization proceedings under Section 77 of the Federal Bankruptcy Act. The ultimate collectibility of these receivables is not presently determinable.

Also included in other assets as of December 31, 1974 are receivables of approximately \$385,000 representing unsettled amounts billed to various carriers for cars received without proper forwarding instructions. A similar amount has been credited to other deferred credits.

3. FEDERAL INCOME TAXES

The effective Federal income tax rates for 1974 and 1973 were 8% and 25% respectively. The differences between the effective rates and the statutory rate of 48% are due primarily to investment tax credits and capital gains rates.

For Federal income tax return purposes, the Company has \$416,699 of unused investment tax credit carryforward at December 31, 1974. The investment tax credits expire in varying amounts from 1976 to 1981.

4. JOINT VENTURE

The Company has entered into and formed joint venture partnerships for the acquisition and development of land and the operation and management of improvements constructed thereon. The Company's original investment of cash and land of \$11,657 has been written down to \$1 because of the net losses to date of the joint ventures. Additional losses have not been recorded.

5. COMMITMENTS

The Company leases locomotives, trucks, and data processing equipment. Total rental expense charged to operations for such leaseholds was \$415,499 and \$407,092 for the years 1974 and 1973 respectively. Minimum annual rental commitments at December 31, 1974 under leases having an initial or remaining term of more than one year are as follows:

Years Ending December 31,	
1975	\$ 188,639
1976	188,640
1977	188,639
1978	188,640
1979	188,639
1980 through 1982	471,599
Total	<u>\$1,417,796</u>

The present value of minimum annual rental commitments under noncapitalized financing leases, with an effective interest factor of 7.7%, was \$1,154,078 at December 31, 1974.

6. RETIREMENT PLAN

The Company's unfunded supplemental retirement plan provides benefits to eligible employees in addition to those received under the Railroad Retirement Act. The expense of the plan was \$96,575 and \$95,776 for 1974 and 1973 respectively.

Management currently is considering a new plan which would conform with the provisions of the Employee Retirement Income Security Act of 1974. The annual cost of such a plan has not been determined.

7. LONG-TERM DEBT

The First Mortgage Bonds and equipment obligations are collateralized by substantially all the properties of the Company.

Under the provisions of the indenture relating to First Mortgage Bonds, the Company is required to meet sinking fund requirements of \$745,000 annually. The Company has reacquired bonds to meet the sinking fund requirements for 1973 and 1974. In addition, in 1974 the Company acquired and retired, under terms of the indenture, bonds of a principal amount of \$1,500,000.

Equipment obligations bear interest at rates ranging from 5 1/8% to 6 3/8% and mature through 1978.

Long-term debt due after one year matures as follows: 1976, \$810,625; 1977, \$777,500; 1978, \$753,125; 1979, \$745,000.

As prescribed in the operating agreement between the Company and the shareholder railroad corporations, such corporations, on a proportionate basis, have advanced funds to the Company for sinking fund installments, equipment obligations, and the cost of capital improvements. Such advances, aggregating \$8,050,864 at December 31, 1974, will be repaid when funds are available in the proportion and in the same order of time as advances were made.

8. CORPORATE STRUCTURE

The Company was organized under the General Laws Authorizing the Formation of Railroad Companies in the State of Illinois passed in the year 1882. Date of incorporation was November 22, 1882. Control of the Company is based on purchases of capital stock which is held by twelve railroad corporations:

<u>Name of Security Holders</u>	<u>Number of Shares</u>
Atchison, Topeka & Santa Fe Ry Co.	2,400
Burlington Northern, Inc.	2,400
Chesapeake & Ohio Ry Co.	2,400
Chicago & Eastern Illinois RR Co.	2,400
Chicago, Rock Island & Pacific RR Co.	2,400

Erie Lackawanna Ry Co.	2,400
Grand Trunk Western RR Co.	2,400
Illinois Central Gulf RR Co.	2,400
Louisville & Nashville Ry Co.	4,800
Norfolk & Western Ry Co.	2,400
Penn Central Transportation Co.	2,400
Soo Line RR Co.	2,400

Total shares issued and outstanding 31,200

9. CONTINGENCIES

The Company is currently involved in litigation with the United States of America and the Internal Revenue Service covering taxable years 1962 through 1966 and 1967 and 1969 respectively. The possible adverse results of these two actions could be an additional tax liability of approximately \$305,000. Under Section 281 of the Internal Revenue Code and the Operating Agreement, there would be no adverse effect on the financial position of the Company since reinstated income would be charged back to the shareholder railroad corporations. Additional tax liability may result in the realization of investment tax credits, which would reduce the current amount of investment tax credit carryforward.

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Directors and Shareholders of
The Belt Railway Company of Chicago:

We have examined the balance sheet of The Belt Railway Company of Chicago as of December 31, 1974, and the related statements of income, retained income, and changes in financial position for the year then ended. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 4 to the financial statements, the Company has entered into joint venture partnerships. We were not able to obtain audited financial statements of the joint ventures and it was not practical to apply auditing procedures to unaudited financial statements.

As discussed in Note 2 to the financial statements, the Company has receivables of approximately \$555,000 due from shareholder railroad corporations who either have entered into or have filed for reorganization proceedings under the Federal Bankruptcy Act. The ultimate collectibility of these receivables is not presently determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we obtained audited financial statements on the joint venture described in the second paragraph above, and subject to the effects, if any, on the financial statements of the ultimate collection of the receivables discussed in the preceding paragraph, the above mentioned financial statements present fairly the financial position of the Company at December 31, 1974, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois 60604
April 11, 1975

HASKINS & SELLS

ROAD AND EQUIPMENT PROPERTY

	Balance December 31, 1973	1974		Balance December 31, 1974
		Additions & Better- ments	Retire- ments	
ROAD:				
Engineering	\$ 659,899	\$ -	\$ 3,165	\$ 656,734
Land for transportation purposes	9,887,873	7,965	186,200	9,709,638
Grading	4,398,090	-	407	4,397,683
Bridges, trestles and culverts	1,918,458	-	-	1,918,458
Ties	1,042,486	3,388	3,828	1,042,046
Rails	2,613,729	86,686	5,387	2,695,028
Other track material	2,198,727	36,401	10,182	2,224,946
Ballast	601,295	12	859	600,448
Track laying and surfacing	1,061,630	1,262	3,551	1,059,341
Fences, snowsheds and signs	13,083	-	-	13,083
Station and office buildings	1,192,763	14,049	40,465	1,166,347
Roadway buildings	91,421	-	-	91,421
Water stations	66,317	-	-	66,317
Fuel stations	65,376	2,227	-	67,603
Shops and engine houses	696,215	5,087	482	700,820
Wharves and docks	40,369	-	-	40,369
Communication systems	270,635	1,039	17,254	254,420
Signals and interlockers	1,509,747	-	-	1,509,747
Power Plants	50,495	4,920	399	55,016
Power-transmission systems	124,181	362	8,167	116,376
Miscellaneous structures	70,244	-	-	70,244
Roadway machines	367,189	32,765	31,957	367,997
Roadway small tools	13,790	-	-	13,790
Public improvements - construction	706,091	-	-	706,091
Other expenditures - road	524	-	-	524
Shop machinery	235,247	76,097	-	311,344
Power plant machinery	370,758	-	-	370,758
TOTAL ROAD	\$30,266,632	\$272,260	\$312,303	\$30,226,589
EQUIPMENT:				
Diesel locomotives	\$ 5,391,066	\$ -	\$344,186	\$ 5,046,880
Freight-train cars	239,219	-	-	239,219
Work equipment	121,664	-	833	120,831
Miscellaneous equipment	220,689	65,887	49,032	237,544
TOTAL EQUIPMENT	\$ 5,972,638	\$ 65,887	\$394,051	\$ 5,644,474
TOTAL ROAD AND EQUIPMENT	\$36,239,270	\$338,147	\$706,354	\$35,871,063

EQUIPMENT OWNED

	On Hand Dec. 31, 1973	Changes During Year		On Hand Dec. 31, 1974
		Added	Retired	
Locomotives:				
Diesel - Switching (A) units	37		4	33
" " (B) units	7			7
Total	44		4	40
Freight-train Cars:				
Caboose	29			29
Box	1			1
Total	30			30
Work Equipment:				
Wrecking derrick	1			1
Jet snow blower	1			1
Burro crane	1			1
Other maintenance cars	12			12
Total	15			15
Miscellaneous Equipment:				
Automobiles (passenger)	10	6	3	13
Trucks (maintenance)	23	7	5	25
Trailers (utility)	4		1	3
Total	37	13	9	41

FUNDED DEBT

First Mortgage bonds issued by Bankers
Trust Company, New York, Trustee:

Total amount authorized \$75,000,000

Sinking Fund Bonds 4-5/8%, Series A, issued
August 15, 1962, due August 15, 1987:

For purchase of properties formerly leased from
the Chicago and Western Indiana Railroad
Company \$36,662,852

Expended for financing expenses and for
additions and betterments subsequent to
August 15, 1962 587,148

TOTAL ISSUED \$37,250,000

Less: Redeemed and cancelled \$10,440,000
 Redeemed and held by or for Company 544,000 10,984,000

TOTAL OUTSTANDING AT DECEMBER 31, 1974 \$26,266,000

OPERATING EXPENSES

Year ended December 31	1974	1973	Increase or (Decrease)
MAINTENANCE OF WAY AND STRUCTURES:			
Superintendence	\$ 260,266	\$ 257,245	\$ 3,021
Roadway maintenance	127,945	128,261	(316)
Bridges, trestles and culverts	54,146	64,996	(10,850)
Ties	155,900	104,535	51,365
Rails	115,725	89,536	26,189
Other track material	152,188	121,669	30,519
Ballast	43,097	35,888	7,209
Track laying and surfacing	886,158	697,247	188,911
Fences, snowsheds, and signs	12,417	11,902	515
Station and office buildings	72,565	86,015	(13,450)
Roadway buildings	11,714	11,522	192
Water stations	141	624	(483)
Fuel stations	402	1,462	(1,060)
Shops and enginehouses	21,247	54,277	(33,030)
Communication systems	124,174	117,814	6,360
Signals and interlockers	268,551	308,400	(39,849)
Power plants	307	4,323	(4,016)
Power-transmission systems	3,178	10,014	(6,836)
Miscellaneous structures	1,084	3,537	(2,453)
Road property - Depreciation (Leased)	26	54	(28)
Road property - Depreciation (Owned)	168,877	172,055	(3,178)
Retirements - Road	(14,125)	7,781	(21,906)
Roadway machines	28,609	29,125	(516)
Dismantling retired road property	39,106	14,699	24,407
Small tools and supplies	51,066	44,312	6,754
Removing snow, ice, and sand	54,419	48,022	6,397
Public improvements - Maintenance	30,440	22,577	7,863
Injuries to persons	10,039	17,534	(7,495)
Insurance	70,192	53,343	16,849
Stationery and printing	2,654	3,811	(1,157)
Employees health and welfare benefits	103,662	97,513	6,149
Other expenses	2,259	2,126	133
Maintaining joint tracks, yards and other facilities - Dr.	157,041	129,812	27,229
Gross total	3,015,470	2,752,031	263,439
Maintaining joint tracks, yards and other facilities - Cr.	1,171,060	1,143,792	27,268
Net - Belt Railway - Separate operation	\$1,844,410	\$1,608,239	\$236,171
Ratio to operating revenues	9.86	10.61	(.75)

OPERATING EXPENSES — continued

Year ended December 31	1974	1973	Increase or (Decrease)
MAINTENANCE OF EQUIPMENT:			
Superintendence	\$ 129,935	\$ 109,680	\$ 20,255
Shop machinery	184	5,177	(4,993)
Power-plant machinery	-	4,577	(4,577)
Shop and power plant machinery - Depreciation	14,546	14,356	190
Diesel locomotives - Repairs	1,144,692	906,298	238,394
Freight-train cars - Repairs	740,437	530,681	209,756
Work equipment - Repairs	10,701	44,792	(34,091)
Miscellaneous equipment - Repairs	58,111	48,431	9,680
Dismantling retired equipment	20	-	20
Equipment - Depreciation	246,890	259,250	(12,360)
Injuries to persons	92,652	36,264	56,388
Insurance	90,034	81,754	8,280
Stationery and printing	4,376	3,055	1,321
Employees health and welfare benefits	63,501	63,643	(142)
Joint maintenance of equipment expenses - Dr.	63,738	69,872	(6,134)
Other expenses	2,131	1,087	1,044
Gross total	2,661,948	2,178,917	483,031
Joint maintenance of equipment expenses - Cr.	465,369	356,596	108,773
Net - Belt Railway - Separate operation	\$2,196,579	\$1,822,321	\$ 374,258
Ratio to operating revenues	11.75	12.02	(.27)
TRAFFIC:			
Advertising	\$ 447	\$ 1,059	\$ (612)
Stationery and printing	13,437	7,321	6,116
Gross total	13,884	8,380	5,504
Charged to Owner Line operation	58	221	(163)
Net - Belt Railway - Separate operation	\$ 13,826	\$ 8,159	\$ 5,667
Ratio to operating revenues	.07	.05	.02

OPERATING EXPENSES — continued

Year ended December 31	1974	1973	Increase or (Decrease)
TRANSPORTATION - RAIL LINE:			
Superintendence	\$ 604,063	\$ 578,796	\$ 25,267
Dispatching trains	144,160	136,684	7,476
Station employees	547,263	502,798	44,465
Weighing, inspection, and demurrage bureaus	6,523	6,532	(9)
Station supplies and expenses	28,846	27,163	1,683
Yardmasters and yard clerks	1,302,036	1,215,531	86,505
Yard conductors and brakemen	3,120,554	2,663,571	456,983
Yard switch and signal tenders	701,234	673,888	27,346
Yard enginemen	1,790,131	1,828,705	(38,574)
Yard switching fuel	740,419	342,353	398,066
Servicing yard locomotives	484,542	380,177	104,365
Yard supplies and expenses	1,030,915	838,285	192,630
Crossing protection	9,749	9,718	31
Communication system operation	35,836	46,940	(11,104)
Employees health and welfare benefits	471,428	466,684	4,744
Stationery and printing	46,702	42,044	4,658
Other expenses	9,387	7,638	1,749
Insurance	160,766	132,298	28,468
Clearing wrecks	163,318	111,850	51,468
Damage to property	18,714	20,289	(1,575)
Loss and damage - Freight	187,015	159,142	27,873
Injuries to persons	313,730	199,023	114,707
Operating joint yards and terminals - Dr.	338,290	361,526	(23,236)
Gross total	12,255,621	10,751,635	1,503,986
Operating joint yards and terminals - Cr.	2,938,234	2,264,678	673,556
Net - Belt Railway - Separate operation	\$9,317,387	\$8,486,957	\$ 830,430
Ratio to operating revenues	49.82	55.97	(6.15)

OPERATING EXPENSES — concluded

Year ended December 31	1974	1973	Increase or (Decrease)
GENERAL:			
Salaries and expenses of general officers	\$ 477,441	\$ 442,644	\$ 34,797
Salaries and expenses of clerks and attendants	527,281	528,339	(1,058)
General office supplies and expenses	236,797	258,203	(21,406)
Law expenses	91,107	83,921	7,186
Insurance	581	586	(5)
Employees health and welfare benefits	63,171	69,565	(6,394)
Pensions	96,575	95,776	799
Stationery and printing	33,809	30,033	3,776
Other expenses	36,486	30,417	6,069
General joint facilities - Dr.	(5,101)	2,270	(7,371)
Gross total	1,558,147	1,541,754	16,393
General joint facilities - Cr.	448,869	528,346	(79,477)
Net - Belt Railway - Separate operation	\$ 1,109,278	\$ 1,013,408	\$ 95,870
Ratio to operating revenues	5.93	6.68	(.75)
Total operating expenses	\$19,505,070	\$17,232,717	\$2,272,353
Total joint facility - credits	5,023,590	4,293,633	729,957
Total operating expenses - Belt Railway - Separate operation	\$14,481,480	\$12,939,084	\$1,542,396
Ratio to operating revenues	77.43	85.33	(7.90)
Operating revenue per car	\$ 31.284	\$ 25.379	\$ 5.905
Operating expense per car	\$ 24.223	\$ 21.657	\$ 2.566

CARS HANDLED

Year ended December 31	1974		1973		Increase or (Decrease) Percent
	Cars	Percent	Cars	Percent	
<u>BELT SEPARATE OPERATIONS:</u>					
Intermediate (Belt Handled):					
Loaded Cars	174,564	24.87	151,251	18.99	15.41
Empty Cars	148,399	21.15	127,560	16.01	16.34
Local (Belt Handled):					
Loaded Cars	140,942	20.09	162,521	20.40	(13.28)
Empty Cars	133,926	19.09	156,125	19.60	(14.22)
Bridge (By Owner Lines):					
Loads and Empty Cars	103,838	14.80	199,099	25.00	(47.85)
TOTAL: (Belt Separate Operations).	701,669	100.00	796,556	100.00	(11.91)
<u>OWNER TO OWNER OPERATIONS:</u>					
Cars interchanged directly between Owner Roads at Clearing and other yards - handled by Belt Railway Company					
	367,706	31.66	257,043	25.02	43.05
Cars handled by Owner Lines in direct movements over Belt Railway Company of Chicago . . .					
	793,693	68.34	770,356	74.98	3.03
TOTAL (Owner to Owner)	1,161,399	100.00	1,027,399	100.00	13.04
TOTAL Cars handled	1,863,068	-	1,823,955	-	2.14

CARS HANDLED FOR LAST FIVE YEARS:

	1974	1973	1972	1971	1970
<u>Belt Separate Operations:</u>					
Intermediate - Loaded	174,564	151,251	169,218	180,449	226,823
Intermediate - Empty	148,399	127,560	154,873	159,584	177,809
Local - Loaded	140,942	162,521	160,283	177,765	191,574
Local - Empty	133,926	156,125	154,693	170,850	176,316
Bridge - Loads & Emptys	103,838	199,099	-	-	-
<u>Owner to Owner Operations:</u>					
Handled by Belt Railway	367,706	257,043	221,315	250,304	284,317
Handled by Owner Lines	793,693	770,356	924,496	882,191	774,386
TOTAL Cars Handled	1,863,068	1,823,955	1,784,878	1,821,143	1,831,225

MILEAGE OF TRACK OPERATED

Year ended December 31	1974				
	First Main	Second Main	Other Mains	Yard Tracks and Sidings	Total
Owned by The Belt Railway Co.: Cragin to South Chicago including Clearing Yard	27.16	25.60	-	307.60	360.36
Leased from other companies: Chicago, Peoria & Western (Argo)	-	-	-	.52	.52
Trackage rights received from other companies: C. & W. I. R.R. Co. 80th St. to Pullman Jct.	3.56	3.47	-	.03	7.06
Pullman Jct. to South Deering	2.68	2.68	2.54	.38	8.28
South Deering to Burnham	4.76	4.76	.67	3.83	14.02
C.R.I. & P. R.R. - South Chicago	-	-	-	1.57	1.57
Penn Central - South Chicago	-	-	-	.09	.09
I.H.B. R.R. - 55th to Elsdon	1.41	1.40	-	-	* 2.81
B.&O. C.T. R.R.-Clearing to Proviso . . .	9.05	8.09	-	13.70	30.84
B.&O. C.T. R.R. Southwest Division (Cicero District)	-	-	-	6.08	6.08
N & W Railway - Ford Yd. & Lead	-	-	-	1.26	1.26
Calumet Western R.R.-112th to 116th . .	.51	-	-	-	.51
Penn Central & I.H.B. R.R. (Joint) 116th to 117th	.11	-	-	-	.11
Chicago, West Pullman & Southern - South Chicago	-	-	-	.09	.09
Total	22.08	20.40	3.21	27.03	72.72
Total Miles Operated	49.24	46.00	3.21	335.15	433.60

YARD TRACKS OWNED BY THE BELT RAILWAY CO. BUT NOT OPERATED

(Not included in above mileage)

Leased To	Location	Miles of Road
C.W.P. & S. R.R.	Warner Branch	1.46
C. & O. Ry. Co.	Rockwell St. Yard	10.91
Total		12.37

TRackage RIGHTS GRANTED OTHER COMPANIES

Company	Location	Miles of Road
I.H.B.R.R.	Elsdon Branch	* 1.51
E.J. & E. Ry.	South Chicago to Mill Gate & South Deering	3.40
Total		4.91

*Trackage Rights Not Exercised.